

DUE DILIGENCE CHECKLIST FOR ACQUISITION OF THE ISSUED SHARES/ASSETS OF TARGET CORPORATION (“CORPORATION”)

Adding strength to your team

A. Corporate Organization

1. Minute books of the Corporation including copies of Articles of Incorporation, and amendments, by-laws, other organizational documents of the corporations, board of directors resolutions, committee resolutions, shareholder resolutions, filings with the Registrar of Corporations and share transfer records;
2. Copies of licences or registrations in jurisdictions in which the Corporation conducts business;
3. A list of existing officers and directors of the Corporation;
4. A list of the current shareholders of the Corporation and the number of shares held by each shareholder;
5. A list of any business names used by the Corporation;
6. Copies of material registrations, licences, permits or governmental consents for the Corporation.
7. In what jurisdictions is the Corporation qualified to do business?
8. Has the Corporation ever changed its names?
9. Is Directors' and Officers' insurance in place?

B. Material Transactions

1. Copies of any documentation relating to any significant acquisitions, restructurings, reorganizations or dispositions out of the ordinary course with respect to the Corporation.

C. Contracts and Commitments

1. Copies of any Shareholder Agreements, including amendments, voting trusts and any other arrangements among shareholders of the Corporation;
2. Copies of any partnership, joint venture or similar contractual arrangements involving the Corporation.
3. List all contracts and commitments to which the Corporation is party and provide copies of any:
 - (a) Debt, security, guaranty or similar agreements or instruments;

- (b) Capital leases, contracts for the deferred purchase price of property, installment purchases and sale lease back arrangements;
 - (c) Bank commitment letters, credit agreements, credit renewals and correspondence with lenders for the last three years;
 - (d) Contracts appointing agents or distributors;
 - (e) Contracts with suppliers and contractors;
 - (f) Powers of attorney;
 - (g) Any secrecy or non competition agreements or arrangements that substantially limits the ability of the Corporation to compete in any line or business with any person or in any area;
 - (h) Leases of real property;
 - (i) Leases of personal property;
 - (j) Contracts or other arrangements with directors, officers, or shareholders;
 - (k) Membership agreements or other relations with trade associations;
 - (l) Brokers of finders agreements;
 - (m) Licence agreements to which the Corporation is party, either as licensor or licensee;
 - (n) Website addresses;
 - (o) Location of offices;
 - (p) Phone numbers & yellow pages listings;
4. Copies of standard form agreements, customer warranties, purchase orders, invoices and similar documents used by the Corporation.
 5. Is the Corporation in default under any contract?
 6. List any contract under which consents or approvals will be required in order to consummate the transaction contemplated, or which will be subject to modification or acceleration as a result of the transaction contemplated.

D. Government Regulation

With respect to the Corporation:

1. Identify governmental notifications or approvals required for the proposed acquisition, both in Canada and the United States, including:
 - (a) *Competition Act*;
 - (b) *Investment Canada Act*;
2. Copies of all communication with government agencies, including environmental and occupational health and safety;
3. Workers' Compensation history, including details of outstanding issues and claims.

E. Litigation

With respect to the Corporation:

1. A list of all past, pending or threatened litigation or administrative investigations or proceedings identifying the parties involved, the nature of the claim and the amount at issue;
2. Copies of any litigation letters to accountants delivered during the currency of existing litigation;
3. Copies of pleadings in existing litigation;
4. Copies of applicable orders, injunctions, etc.;
5. Details of any convictions of the Corporation or its directors or officers (in relation to the business of the Corporation) under the provisions of any statute, including environmental, health and safety.

F. Financial

With respect to the Corporation

1. Copies of Consolidated Financial Statements since incorporation with access to auditors and working papers;
2. Copies of most recent unaudited statements with comparable statements for prior years;
3. Copies of most recent monthly operating statements;
4. Copies of auditors' letters to management for the past five years;
5. Copies of accounting/controllers manual and related policies;
6. Detailed listing of prepaid expenses;
7. Accounts receivable review (quality, aging, bad debt allowance, special cases);
8. A list of 20 largest customers, including longevity and volume, if available;
9. A list of 20 largest suppliers, including longevity and volume, if available;
10. Detail of fixed asset purchases and schedule of depreciation;
11. Details of bank indebtedness and long term debt;
12. Copies of any compliance reports or certificates prepared for lenders by the Corporation;
13. Number and location of bank accounts and safety deposit boxes and names of authorized signatories;
14. Future financial projections and copies of current strategic plan or other available long term projections of corporate growth, profitability and investments together with related supporting analysis and assumptions, preferably segregated between operation;
15. Current budget and any proposed budgets;

16. Detailed inventory listing with cost details;
 - (a) Information on:
 - (i) Inventory valuation method;
 - (ii) Inventory turnover;
 - (iii) Amount of fast moving, slow moving excess and obsolete inventory;
 - (iv) Margins on order on backlog;
17. Outstanding purchase orders listings;
18. Aged list of payables;
19. Bids submitted and contracts awarded in the last _____ years;
20. Transfer pricing details and documentation.

G. Tax Matters

With respect to the Corporation:

1. Copies of all federal, provincial, state and local tax returns (including all attachments, schedules, working papers, etc.) and notices of assessment for the last ____ years;
2. All G.S.T., provincial and local value added and sales tax returns filed and notices of assessment;
3. Copies of any waivers provided to any taxation authority;
4. A description of current tax audit issues or notifications of potential tax audit issues;
5. A description of significant tax planning (i.e. amalgamations, winding ups, section 85 Income Tax Act transactions etc.) transactions (inter company or otherwise) undertaken in the last five years;
6. Details concerning any loss carry forwards;
7. Details of any tax credits;
8. The adjusted cost base of capital properties;
9. The amount of capital dividend account and copies of any capital dividend account elections.

H. Employees

1. Copies of Union agreements, if any;
2. Copies of any Management and Employment agreements;
3. An organizational chart, including functions and reporting responsibilities;
4. A list of employees, including name, starting date, responsibilities, compensation, prior service/experience and pending claims;
5. A list of labour and other employee related disputes, grievances, complaints, investigations, arbitrations, unfair labour practice claims and other proceedings.
6. The current number of employees, turnover, absentee history and remuneration, and details of employees on disability;

7. Copies of any profit sharing, bonus or incentive compensation plans and agreements;
8. Copies of any employee Stock Option Plans and Share Bonus Plans, Share Appreciation Plans and arrangements;
9. Copies of any written pension and welfare benefit plans and arrangements of the Corporation;
10. A calculation of Pension Fund liabilities and assets;
11. Any actuarial report or certificate with respect to the funding of employee pension plans;
12. A description of fringe benefits, perquisites, holidays and vacations;
13. Copies of any group health and accident plans;
14. A history of recent union negotiations or activities;
15. The current remuneration of directors and officers;
16. Details of any indebtedness of directors or officers to the Corporation;
17. Copies of any personnel manuals, policies or programs, including equal employment, age, discrimination, sexual harassment and occupational safety and health matters;
18. Details of accidents, injuries and claims.

I. Privacy Matters

1. Evidence of compliance with the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5, (“PIPEDA”) by the Corporation.

J. Environmental Matters

With respect to the Corporation:

1. List past and current investigations, proceedings, violations, convictions and lawsuits;
2. A copy of any environmental management assessment and environmental management policy;
3. Has the Corporation or any predecessor corporations previously owned or leased sites that had known environmental problems or were operations conducted that were likely to give rise to contamination?
4. Copies of all environmental reports, audits, assessments or reviews.

K. Insurance

With respect to the Corporation:

1. Copies of insurance policies in effect, including broker’s summaries of coverage;
2. A summary of claims experienced under insurance policies for the last five years.

L. Assets

With respect to the Corporation:

1. A list of real property owned including location, date acquired, mortgages, property taxes and leases thereof, age and type of construction of buildings and copies of any options or contracts for sale;
2. A list of real property leased by the Corporation and, if available, a summary of date, term and termination rights, assignability, renewal rights and rent;
3. A list of personal property (non real estate) owned including motor vehicles (with serial numbers) and any liens, encumbrances or security interest thereon;
4. A list of material personal property (non real estate) leased and, if available, a summary of date, term and termination rights, assignability, renewal rights and rent;
5. A list and copies of trademarks, trade names, copyrights, patents, industrial designs, service marks and applications therefore used by the Corporation, both registered and unregistered;
6. A description of any other proprietary information including but not limited to unpatentable know how and technology as well as patentable inventions not covered by existing patent applications or patents;
7. Copies of assignments of trademarks, trade names, copyrights, patents or service marks to which the Corporation is a party, either as assignor or assignee.

M. Miscellaneous

1. Copies of any other manuals, standards manuals or programs relating to the business of the Corporation;
2. Copies of Annual Reports to shareholders (public corporations).

N. Public Searches

1. Corporate Registry;
2. Corporate Records Office (to review history of the Corporation);
3. Business Name List;
4. Document List (to ascertain that the Corporation is up to date with its filings);
5. Certificate of [Status];
6. Personal Property Registry (to ascertain security interests, liens and other encumbrances filed against the Shareholders and the Corporation's assets);
7. *Bank Act* (Canada) security;
8. *Bankruptcy and Insolvency* (Canada);
9. Intellectual Property registries;
10. *Memorials and Executions Act*